

## Message Text

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ACTION AF-06

INFO OCT-01 ARA-06 EUR-12 EA-06 NEA-09 ISO-00 GSA-01

OPIC-03 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-07

FRB-03 H-01 INR-07 INT-05 L-02 LAB-04 NSAE-00 NSC-05

PA-01 RSC-01 AID-05 CIEP-01 SS-15 STR-01 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 /119 W

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R 201430Z JAN 75

FM AMEMBASSY CONAKRY

TO SECSTATE WASHDC 0432

AMEMBASSY ACCRA

AMEMBASSY ALGIERS

AMEMBASSY ATHENS

AMEMBASSY BAMAKO

AMEMBASSY BELGRADE

AMEMBASSY CANBERRA

AMEMBASSY FREETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY JAKARTA

AMEMBASSY KINGSTON

AMEMBASSY MONROVIA

AMCONSUL PARAMARIBO

AMEMBASSY PARIS

AMEMBASSY PORT AU PRINCE

AMEMBASSY PORT OF SPAIN

AMEMBASSY SAN JOSE

AMEMBASSY SANTO DOMINGO

AMEMBASSY THE HAGUE

AMEMBASSY YAOUNDE

C O N F I D E N T I A L CONAKRY 0082

E.O. 11652: GDS

TAGS: EMIN GV

SUBJECT: GUINEA'S NEW TAX ON BAUXITE AND REACTION OF US

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INVESTORS (HALCO)

REF: A. CONAKRY 0059; B. CONAKRY 0068

1. SUMMARY. THOUGH INCREASE IN PRICE GUINEAN BAUXITE WAS EXPECTED, US INVESTORS DISTURBED BY NEW RETROACTIVE TAX ON EXPORTS WHICH THEY BELIEVE MAY VIOLATE EXISTING AGREEMENTS. TAX ON CBG BAUXITE ESTIMATED AT ABOUT \$6.PER TON. FOREIGN PARTNERS IN CBG WILL STUDY NEW MEASURE PRIOR TO NEXT CBG BOARD MEETING, EXPECTED AT END OF FEBRUARY 1975. END SUMMARY.

2. WHILE INCREASE IN GUINEAN BAUXITE PRICES HAS BEEN EXPECTED FOR SOME TIME, NEW TAX ON BAUXITE/ALUMINA EXPORTS, POSSIBILITY THAT APPLICATION OF TAX MAY BE IN CONTRAVENTION OF EXISTING CONTRACTS, AND RETROACTIVE NATURE OF TAX WAS UNEXPECTED. HALCO OFFICIALS, VISITING GUINEA AT TIME OF TOURE'S SPEECH AND ADOPTION NEW LAW (REFTELS) DISCUSSED MATTER WITH STATE COMMITTEE CHAIRMAN MOUSSA DIAKITE. THEY TOLD DIAKITE THAT HALCO WOULD HAVE TO STUDY THE NEW TAX IN THE LIGHT OF THE EXISTING CONTRACTUAL AGREEMENT. GUINEANS PLAN TO HOLD NEXT CBG BOARD MEETING AT END OF FEBRUARY, FOLLOWING DIAKITE'S VISIT TO THE US (SEPTEL).

3. IN HIS LONG JUSTIFICATION FOR IMPOSING NEW TAX, PRESIDENT TOURE USED PRIMARILY EXAMPLE OF CBG, CLAIMING THAT TOTAL INVESTMENT OF FOREIGN INVESTORS IN ENTIRE PROJECT, INCLUDING PORT, RAILROAD AND OTHER INFRASTRUCTURE, AMOUNTED TO ONLY 25 PERCENT OF TOTAL INVESTMENT COMPARED TO 75 PERCENT OF GOG INVESTMENT. THIS COMPARED TO 35 PERCENT PROFITS FOR FOREIGN PARTNERS AND 65 PERCENT FOR GUINEA. IT IS NOT ENTIRELY CLEAR TO US HOW GUINEANS ARRIVED AT ABOVE FIGURES. SPECULATION IS THAT TOURE CONSIDERS THAT CBG FINANCING, EVEN THOUGH GUARANTEED BY FOREIGN PARTNERS ALONE, SHOULD BE DIVIDED BETWEEN THE GUINEAN GOVERNMENT AND FOREIGN PARTNERS. HALCO HAS PROVIDED US WITH THEIR OWN FIGURES INDICATING HALCO INVESTMENT IN ENTIRE BOKE PROJECT AMOUNTS TO SOME \$256 MILLION, COMPARED TO GUINEAN INVESTMENT OF SOME \$110 MILLION (MOST OF WHICH IS GUARANTEED BY HALCO). RESPECTIVE FINANCING BY GUINEAN GOVERNMENT AND FOREIGN PARTNERS IS THEREFORE 30 PERCENT - 70 PERCENT, ALMOST REVERSE OF PERCENTAGES CITED BY TOURE. BREAKDOWN OF HALCO-FURNISHED FIGURES WILL BE FURNISHED.

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4. IN HIS JAN 13 SPEECH, TOURE DID NOT SPECIFY RATE OF TAX BUT STATED ONLY THAT BENEFITS TO GUINEAN TREASURY WOULD BE AT LEAST PDWT MILLION DURING 1975. ON BASIS OF TAX RATES SET FORTH IN NEW LAW (REF B), HALCO OFFICIALS ESTIMATE TAX ON CBG BAUXITE - HIGH-QUALITY ORE -- WILL AMOUNT TO ABOUT \$6 PER TON ON BASIS CURRENT VALUE OF ALUMINUM INGOT.

5. TOURE ALSO CITED EXAMPLE OF FRIGUIA IN JUSTIFYING NEW TAX, BUT DID NOT SPECIFICALLY MENTION OTHER PROJECTS, NOTABLY SOVIET KINDIA OPERATION. TOURE SAID ONLY THAT NEW TAX "CAN BE APPLIED WHATEVER THE JURIDIAL AND FISCAL REGIMES OF OUR DIFFERENT EXPLOITATIONS, WHETHER PRIVATE, MIXED, OR NATIONAL." SOME OF INFORMED SOURCES HERE, IN FACT, SPECULATE THAT GUINEA'S LDEW TAX IS DESIGNED IN MAJOR PART TO INSURE SOME RETURN TO GUINEAN TREASURY FROM SOVIET PROJECT, FROM WHICH, AS DEPT AWARE, GUINEA REALIZES VIRTUALLY NO BENEFIT NOW SINCE ORE IS CONSIDERED REPAYMENT OF GUINEAN DEBT TO SOVIETS.

6. APART FROM FIGURES TOURE CITES FOR RESPECTIVE GUINEAN AND FOREIGN INVESTMENTS, HALCO OFFICIALS DO NOT QUESTION MUCH OF TOURE'S ECONOMIC JUSTIFICATION FOR INCREASED PRICE OF GUINEAN BAUXITE, NOR HIS EMPHASIS ON ENCOURAGING CONVERSION OF BAUXITE INTO ALUMINA/ALUMINUM WITHIN GUINEA. REGARDING PRICZN, HALCO IN FACT HAD ALREADY SUBMITTED FORMULA TO GUINEAN GOVERNMENT FOR INCREASE IN SELLING PRICE. THEY ARE DISTURBED, HOWEVER, THAT GUINEANS HAVE NEVER RESPONDED TO THIS PROPOSED FORMULA, AND THAT SEKOU TOURE APPARENTLY TOOK NO ACCOUNT OF IT IN HIS SPEECH OR IN THE NEW LAW. REGARDING PROCESSING OF BAUXITE WITHIN GUINEA, HALCO OFFICIALS ALSO AGREE WITH GUINEAN REASONING, BUT QUESTION ONLY TIMING.

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## Message Attributes

**Automatic Decaptioning:** X  
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**Current Classification:** UNCLASSIFIED  
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**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CONAKR00082  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Handling Restrictions:** n/a  
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**Office:** ACTION AF  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 CONAKRY 0059, 75 CONAKRY 0068  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 MAY 2003 by BoyleJA>; APPROVED <15 MAY 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GUINEA'S NEW TAX ON BAUXITE AND REACTION OF US CONFIDENTIAL  
**TAGS:** EMIN, GV  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006